

EXHIBIT C

UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA
(Harrisburg Division)

UNITED STATES FIDELITY AND)
GUARANTY COMPANY,)
Plaintiff)
v.) CIVIL ACTION NO. 1:01-CV-00813
BRUCE J. BROWN and BROWN)
SCHULTZ SHERIDAN & FRITZ,)
Defendants.)

JUDGE CONNOR

SUPPLEMENTAL AND REBUTTAL EXPERT REPORT OF STEVE J.
DEBRUYN, CPA

This report supplements my report dated July 22, 2002 and also addresses certain issues contained in the reports of Miller Coffey Tate LLP and The Brenner Group.

THE RESTATEMENTS IN GENERAL

My original report discloses numerous deficiencies in the audit procedures regarding the contracts in process. Therefore, to determine the potential effect on the financial statements for the respective years, I started with the contracts-in-process schedules from the supplemental financial statements of CCI Construction Company, Inc. "(CCI)" prepared by Brown Schultz. The restatements for both 1997 and 1998 are a result of recasting the contracts-in-process schedules for those years. Exhibits I and III attached hereto are the recast schedules of CCI's contract-in-process. Exhibits II and IV attached hereto are the original schedules reproduced from the audited financial statements of CCI for the respective years. Exhibit V attached hereto is the actual contracts-in-process schedule for the year ended December 31, 1999. The recast methodology used was similar to the "look back" method utilized by the Internal Revenue Service. The method involves recasting contracts-in-process in a given year from information obtained in a subsequent year. For example, if a contract was in process at the end of 1997 and subsequently completed in 1998, we recalculated, among other things, the 1997 percentage complete, revenue recognized and the profit and loss utilizing the actual numbers from the completed contract. As noted on the attached Exhibits I and III, there are a few exceptions. However, the methodology was consistently used to recast both 1997 and 1998 contracts-in-process schedule.

THE RESTATEMENT OF THE 1997 BROWN SCHULTZ AUDIT REPORT

I calculated the total estimated cost by using the "actual" gross profit percentage of the job when it was completed. There were two exceptions to this method. Job 439 was calculated estimating the loss as determined or estimated at December 31, 1997 by CCI. Job 451 was calculated using the original gross profit estimated by CCI. I then recalculated the percentage complete, which changed the over/under billings. For the 1997-year end, the effect on over/under billings and on the net income of CCI was \$815,960. Exhibit I details the revised calculations as well as reporting the differences between the recast and originally reported balances. The differences arose mainly due to the change in gross profit percentages from the 1997 estimates to the actual completed contracts. One job in particular (job 445), was reported as a projected loss on the original schedule of \$82,956. When the job was completed in 1998, the actual loss was \$436,063. Brown Schultz' workpapers document that there were significant problems on the job with subcontractor defaults, although it is not evident that they substantiated management's representations by vouching to subcontractor agreements or reviewing subsequent costs. The job was 38% complete and because this showed a loss it should have alerted Brown Schultz that it was necessary to do some additional inquiry and audit testing. This also relates back to my comments made in my original report regarding Brown Schultz' undue reliance placed on management's assertions, their conscious decision not to include job costs in the review of subsequent disbursements and their decision to not test subcontractor costs.

THE RESTATEMENT OF THE 1998 BROWN SCHULTZ AUDIT REPORT

The same methodology was used as the 1997 approach by utilizing the "actual" or "revised" gross profit percentage from the completed contract schedule and contracts-in-process schedule prepared as of December 31, 1999. The 1998-year resulted in overstating income by \$3,126,508.

The two year cumulative effect on net income was \$3,942,467.

I chose to use the foregoing methodology for the following reasons:

- My contention is that due to lack of audit work, specifically with the testing of subcontractors, accumulated costs to complete and subsequent job costs, Brown Schultz did not have the opportunity to correctly ascertain the profit fade on the individual contracts.
- Brown Schultz should have taken into account the material profit fade from the 1997 jobs in connection with the 1998 audit work. However, the facts are that gross profit

percentages on several jobs were in excess of any historical amounts and well above the amounts originally estimated in the contracts by the contractor (CCI).

The process used to recast the earnings and estimate the misstatement in the 1997 and 1998 audited financial statements was, in my opinion, a conservative approach. The results using the above approach yielded material exceptions. The lack of audit procedures employed by Brown Schultz did not allow them the opportunity to ascertain the misstatements regardless of the amount. Even though I took a conservative approach by using actual results, the resulting differences were significant enough such that they have to relate back to the lack of effective audit procedures employed by Brown Schultz.

PCIC RECEIVABLE

To clarify my position and opinion on the PCIC transaction recorded in the 1998 financial statements in the amount of \$1,162,460, I believe that the amount should not have been recorded and disclosed as additional contract revenue and contract overbillings. In my 1998 recast contracts-in-process schedule I did not include the total contract amount for that specific job. In my opinion, the transaction did not meet the standards to be recorded as contract revenue. In addition, a more useful disclosure would have been to report the transaction as a separate line on the balance sheet of CCI indicating that it was a guarantee by the stockholder.

PROFESSIONAL STANDARDS ISSUES

My original report noted that the audit work for Brown Schultz for the years 1997 and 1998 did not conform to applicable standards of care of a Certified Public Accountant. For example, Generally Accepted Accounting Standards (GAAS) require "Due professional care is to be exercised in the performance of the audit and the preparation of the report" (source: SAS no.1, AU section 230). Included in this section is the fact that due professional care requires the auditor to exercise professional skepticism. Based on my review of the audit workpapers for the years 1996, 1997 and 1998, Brown Schultz failed to act with sufficient professional skepticism and was not diligent in evaluating the audit evidence. Furthermore, the first standard of fieldwork requires that the work "is adequately planned and properly supervised" (source: SAS no.22, AU section 311). As noted in my earlier report, Brown Schultz's planning documentation was virtually unchanged between 1996 – 1998. Brown Schultz failed to properly address the risk involved in the audit of CCI and, therefore, did not allow the firm to modify or change the audit procedures or approach. In addition, the third standard of fieldwork requires "sufficient competent evidential matter is to be obtained ..." (source: SAS no. 31, AU section 326). As a result of Brown Schultz' limiting the testing of accumulated job costs, subcontractor costs and subsequent

disbursement of job costs, Brown Schultz denied itself the opportunity to obtain all possible evidential matter available to properly perform the audit.

Dated: September 20, 2002

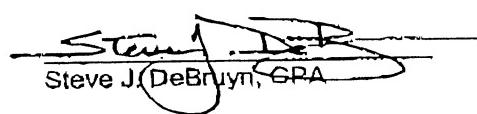

Steve J. DeBruyn, CPA

EXHIBIT I

A	B	C	D	E	F	G	H	I	J	K	L	M	N
SCHEDULE OF CONTRACTS IN PROGRESS - REVISED													
31-Dec-97													
Job #	Job Name	Date	Complete	Cost	Complete	Cost	Percent	Contract	Gross	Earnings	Cost and Earnings	Billing	Excess
11													
12	426	6/2	\$ 15,878,479	\$ 1,430,469	\$ 17,308,948	91.74%	\$ 18,961,022	\$ 1,652,074	\$ 1,515,541	\$ 17,394,020	\$ 16,899,942	\$ 494,078	\$ 8.71%
13	439	4/2	\$ 6,309,222	\$ 4,214,516	\$ 10,523,738	59.95%	\$ 10,289,145	\$ (234,593)	\$ (234,593)	\$ 6,074,629	\$ 6,337,295	\$ -	\$ 262,666
14	445	6/2	\$ 4,169,371	\$ 6,624,479	\$ 10,793,850	38.63%	\$ 10,357,787	\$ (436,063)	\$ (436,063)	\$ 3,733,308	\$ 4,349,670	\$ -	\$ 616,362
15	448	6/2	\$ 521,254	\$ 3,913,779	\$ 4,435,033	11.75%	\$ 4,604,000	\$ 168,967	\$ 19,859	\$ 541,113	\$ 509,198	\$ 31,915	\$ 3,6774
16	449		\$ 515,339	\$ 934,356	\$ 1,449,695	35.55%	\$ 1,387,666	\$ (62,029)	\$ (62,029)	\$ 453,310	\$ 473,383	\$ -	\$ 20,073
17	450		\$ 115,461	\$ 3,127,293	\$ 3,242,754	3.56%	\$ 3,266,600	\$ 23,846	\$ 849	\$ 116,310	\$ -	\$ 116,310	\$ 0.73%
18	451	5/2	\$ 411,608	\$ 6,170,750	\$ 6,582,358	6.25%	\$ 6,880,993	\$ 298,635	\$ 18,674	\$ 430,282	\$ 599,088	\$ -	\$ 168,806
19	TOTALS		\$ 27,920,734	\$ 26,415,641	\$ 54,336,375	51.38%	\$ 55,747,213	\$ 1,410,838	\$ 822,239	\$ 28,742,973	\$ 29,168,576	\$ 642,303	\$ 1,067,906
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24	Critical Assumptions:												
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- 1> Column C, G & K from the supplemental schedules of the audited statements.
- 2> Column E calculated from Gross Profit % in column N.
- 3> Gross Profit %'s are based on actual from schedule prepared as of 12/31/99 with exception of Job's #439 &451 as explained below.
- 4> Gross Profit % used is the 1997 estimated loss as documented in the workpapers. The job performed better and the income realized in 1998 & 1999.
- 5> Gross Profit % used was based on clients original estimate as documented in 1997 workpaper file since the job had just started and auditors knowledge of the loss is probably not reasonable.
- 6> Job completed in 1998

- 1> Column C, G & K from the supplemental schedules of the audited statements.
- 2> Column E calculated from Gross Profit % in column N.
- 3> Gross Profit %'s are based on actual from schedule prepared as of 12/31/99 with exception of Job's #439 &451 as explained below.
- 4> Gross Profit % used is the 1997 estimated loss as documented in the workpapers. The job performed better and the income realized in 1998 & 1999.
- 5> Gross Profit % used was based on clients original estimate as documented in 1997 workpaper file since the job had just started and auditors knowledge of the loss is probably not reasonable.
- 6> Job completed in 1998

EXHIBIT

SCHEDULE OF CONTRACTS IN PROGRESS
11 Dec 07

31-Dec-97

EXHIBIT III

1	A	B	C	D	E	F	G	H	I	J	K	L	M	N
SCHEDULE OF CONTRACTS IN PROGRESS - REVISED														
31-Dec-98														
4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Job #	Job Name	Date	Incurred to Date	Cost to Complete	Estimated Cost to Complete	Total Percent Complete	Contract Price	Earnings	Earnings Recog.	Estimated Total	Gross Earnings	Cost and Earnings	Billings To Date	Excess Billings Over Cost and Earnings
11														
12	439	4	\$ 10,666,808	\$ 1,164	\$ 10,667,972	99.99%	\$ 10,536,958	\$ (131,014)	\$ 10,535,794	\$ 10,481,740	\$ 54,054	\$ -	\$ -	-1.24%
13	450		\$ 1,172,766	\$ 2,069,988	\$ 3,242,754	36.17%	\$ 3,266,600	\$ 23,846	\$ 8,624	\$ 1,181,390	\$ 730,724	\$ 450,666	\$ -	-0.73%
14	451		\$ 6,659,984	\$ 1,161,755	\$ 7,821,739	85.15%	\$ 7,032,984	\$ (738,755)	\$ 5,921,229	\$ 6,570,468	\$ -	\$ 649,239	\$ -	-10.43%
15	454		\$ 4,819,694	\$ 10,662,333	\$ 15,482,027	31.13%	\$ 14,524,840	\$ (957,187)	\$ 3,862,507	\$ 4,719,426	\$ -	\$ 856,919	\$ -	-6.59%
16	455		\$ 4,734,492	\$ 7,222,199	\$ 11,956,691	39.60%	\$ 12,937,341	\$ 980,650	\$ 388,308	\$ 5,122,800	\$ 3,108,536	\$ 2,014,264	\$ -	-7.58%
17	456		\$ 2,715,193	\$ 2,166,757	\$ 4,881,950	55.62%	\$ 5,380,745	\$ 498,795	\$ 277,415	\$ 2,992,608	\$ 2,792,602	\$ 260,006	\$ -	-9.27%
18	457		\$ 547,295	\$ 898,978	\$ 1,446,273	37.84%	\$ 1,495,639	\$ 49,556	\$ 18,677	\$ 565,972	\$ 617,799	\$ -	\$ 51,827	-0.30%
19	459		\$ 6,026,575	\$ 8,447,282	\$ 14,273,857	42.22%	\$ 14,870,150	\$ 596,293	\$ 251,761	\$ 6,278,336	\$ 6,571,905	\$ -	\$ 293,569	\$ 14,013%
20	460		\$ 2,905,995	\$ 12,433,313	\$ 15,339,308	18.96%	\$ 15,565,000	\$ 225,693	\$ 42,757	\$ 2,948,752	\$ 2,252,156	\$ 696,596	\$ -	-1.45%
21	461		\$ 1,518,251	\$ 2,274,170	\$ 3,792,421	40.03%	\$ 3,842,372	\$ 49,951	\$ 19,997	\$ 1,538,248	\$ 1,097,444	\$ 440,804	\$ -	-1.30%
22	462		\$ 458,553	\$ 5,045,263	\$ 5,503,816	8.35%	\$ 5,589,900	\$ 86,084	\$ 7,172	\$ 465,725	\$ 419,511	\$ 46,214	\$ -	-11.54%
23	TOTALS		\$ 42,225,606	\$ 52,183,201	\$ 94,408,807	44.75%	\$ 95,092,519	\$ 683,712	\$ (812,244)	\$ 41,413,362	\$ 39,302,311	\$ 3,962,604	\$ 1,851,554	
24									0.72%					
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Critical Assumptions:
 1> Column C, G & K from the supplemental schedules of the audited statements.
 2> Column E calculated from Gross Profit % in column N.

- 3> Gross Profit %'s are based on actual from schedule prepared as of 12/31/99 with exception of Job #439 as explained below.
 4> Gross Profit % is the 1998 amount based on total estimated cost to date and contract income reduced for \$1,162,460
 In revenue recorded by the auditor incorrectly. A claim amount was received and recognized in 1999

EXHIBIT IV

SCHEME OF CONTRACTS IN PROGRESS

31-Dec-98

EXHIBIT V

1	A	B	C	D	E	F	G	H	I	J	K	L	M	N	
2															
3															
SCHEDULE OF CONTRACTS IN PROGRESS															
31-Dec-99															
4	Cost	Estimated Total	Incurved to Date	Cost to Complete	Percent Complete	Contract Price	Estimated Gross	Earnings Recov.	Earnings	Billings To Date	Cost and Over	Earnings Over	Billings	Excess	
5															
6															
7															
8															
9															
10	Job #	Job Name	Date	Cost	Percent Complete	Price	Gross	Earnings	Earnings	Billings	Earnings	Billings	Earnings	GP %	
11															
12	439			\$ 10,704,600	100.00%	\$ 10,787,727	\$ 83,127	\$ 10,787,727	\$ 10,787,727	\$ -	\$ -	\$ -	\$ -		
13	450			\$ 3,705,315	100.00%	\$ 3,732,569	\$ 27,254	\$ 3,732,569	\$ 3,732,569	\$ -	\$ -	\$ -	\$ -		
14	451			\$ 7,963,660	5	\$ 21,222	\$ 7,230,740	\$ (754,142)	\$ 7,209,518	\$ 7,220,117	\$ -	\$ 10,599	\$ 10,599		
15	454			\$ 12,681,811	5	\$ 2,862,660	\$ 15,544,471	\$ 14,582,917	\$ (961,554)	\$ 11,720,257	\$ 12,014,911	\$ -	\$ 294,654	\$ 294,654	
16	455			\$ 11,214,162	5	\$ 799,792	\$ 12,013,954	\$ 12,999,654	\$ 985,700	\$ 12,080	\$ 12,592,012	\$ -	\$ 457,770	\$ 457,770	
17	456			\$ 5,081,715	5	\$ -	\$ 5,081,715	100.00%	\$ 5,600,748	\$ 519,033	\$ 5,600,748	\$ -	\$ -	\$ -	
18	457			\$ 1,446,265	5	\$ -	\$ 1,446,265	100.00%	\$ 1,495,629	\$ 49,364	\$ 1,495,629	\$ -	\$ -	\$ -	
19	459			\$ 18,700,567	5	\$ 278,916	\$ 18,979,483	\$ 19,772,015	\$ 780,885	\$ 19,481,452	\$ 15,332,896	\$ 4,148,556	\$ -	\$ -	
20	460			\$ 9,850,590	5	\$ 6,071,422	\$ 15,922,012	\$ 16,155,581	\$ 233,569	\$ 144,504	\$ 9,995,094	\$ 10,055,938	\$ -	\$ 60,844	\$ 60,844
21	461			\$ 3,940,304	5	\$ 121,249	\$ 4,061,553	\$ 4,115,065	\$ 53,512	\$ 51,915	\$ 3,992,219	\$ 4,053,770	\$ -	\$ 61,551	\$ 61,551
22	462			\$ 3,601,849	5	\$ 2,077,590	\$ 5,679,439	\$ 5,767,995	\$ 88,556	\$ 56,161	\$ 3,658,010	\$ 3,667,008	\$ -	\$ 8,998	\$ 8,998
23	TOTALS	\$ 88,890,838	\$ 12,232,851	\$ 101,123,689	87.90%	\$ 102,240,640	\$ 1,116,951	\$ 916,627	\$ 89,807,465	\$ 86,553,325	\$ 4,148,556	\$ 894,416			
24															
25															
26															